

DUPLICATE ORIGINAL

NATIONAL PETROLEUM COUNCIL

I hereby certify that this corrected transcript constitutes an accurate record of the 97th meeting of the National Petroleum Council held on January 23, 1991 in Washington, D.C.

8/29/91
(Date)

Robert M. White
Chairman
National Petroleum Council

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UNITED STATES DEPARTMENT OF ENERGY

MEETING OF THE
NATIONAL PETROLEUM COUNCIL

Wednesday, January 23, 1991

9:00 a.m.

The Madison Hotel
Dolley Madison Ballroom
15th and M Streets, N.W.
Washington, D.C.

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P R O C E E D I N G S

CHAIRMAN COOK: Good morning. I would like to call to order the 97th meeting of the National Petroleum Council. You have before you a copy of this morning's agenda.

As usual, we have a very good turnout, and I suggest that we dispense with the calling of the roll. If there is no objection, the check-in outside will serve as the official attendance record of this meeting. If you haven't checked in before the meeting, please do so immediately following adjournment.

Now I would like to introduce the persons seated at the head table. On my far left is Ken Derr, Chairman of the NPC Committee on Refining. Next to Ken is Bob Gentile, Assistant Secretary for Fossil Energy. ^{And} Next is Bob McClements, Chairman of the NPC Committee on Emergency Preparedness.

On my far right is Marshall Nichols, Executive Director of the Council. Next to Marshall is Frank Richardson, Chairman of the NPC Committee on Natural Gas. ^{And} Next is Ray Hunt, Vice Chairman of the Council.

On my immediate right is the Honorable James D. Watkins, Secretary of Energy. We're very pleased that he's

joined us this morning.

Our first item of business is to hear from Admiral Watkins. In addition to the situation in the Middle East, many important events are occurring in the energy arena. The supply/demand outlook for the 1990s will be significantly shaped by these events, and we look forward to hearing the Secretary's perspective on these matters.

Ladies and gentlemen, it's my pleasure to present to you the Honorable James D. Watkins, Secretary of Energy.

[Applause.]

SECRETARY WATKINS: Thanks very much, Lod. It's an honor always for me to be with the National Petroleum Council, and you've done a lot for me here in recent weeks. I'll talk a little bit more about that later, and I appreciate all of the tremendous effort that the Council has put into giving me the very best advice they can on oil and gas matters.

Well, Operation Desert Storm is barely a week old, and while there are surely going to be some tough times ahead, initial results have been gratifying. Militarily, the operation is obviously proceeding according to careful plan. The brave men and women of Desert Storm, a force drawn from

28 different nations, are fighting with skill and determination to liberate Kuwait. They're also fighting with state-of-the-art equipment and technology to advance our cause and minimize casualties.

It's interesting for me to have gone through a period when we were accused by so many as putting too much emphasis on sophisticated technology, and to see the payoff now for those years of investment in the best of American Industry, I think is a very rewarding situation, certainly as I view it. We were criticized and criticized and criticized, and now Patriots work, cruise missiles work, precision bombing works, and the results are displayed to the world.

I believe that it showed great sensitivity on the part of the President, on the part of the United States, that when we say minimize casualties, we mean minimize casualties, certainly to our own troops but, just as importantly, to innocent civilians on the other side. So they have our fullest support and our continuing prayers for a successful mission and safe return to friends and families.

As a nation, we can take great comfort in the President's experienced leadership. As a member of the Cabinet, I have watched at firsthand his impressive efforts

in building the multinational coalition now arrayed against Saddam Hussein. The President has shown both toughness and compassion. Unwilling to compromise on principle or give any ground to the aggressor, he nevertheless went the extra mile and pursued all possible diplomatic avenues in the search for a peaceful and just solution before hostilities commenced. Finally, when war came, the coalition was truly united and superbly prepared.

We can also be encouraged that, at the outbreak of hostilities, oil prices did not soar, as so many had forecast. In fact, as you well know, quite the opposite occurred. I just put together a few things this morning.

The L.A. Times: "The price of oil could explode to as much as \$100 a barrel if war breaks out."

The Washington Post: "There's a broad-based consensus that the onset of war would trigger a sharp spurt in oil prices, perhaps to as high as \$50 a barrel, and a mini-crash in the stock market."

Time Magazine: "The price could go up to \$50, maybe up to \$60, if Iraq succeeds in halting the flow of oil, maybe \$100 a barrel if war commences."

Associated Press: "Crude oil prices doubled to

around \$40 a barrel soon after Iraq's invasion but have fallen to as low as \$29, but if war breaks out they could shoot up to as high as \$100 a barrel."

Reuter's: "The price may shoot up to \$100."

So pretty soon it was obvious to me that we had brewing a self-fulfilling prophecy. If we asked enough people on the street, they would all repeat \$60 to \$100, \$60 to \$100. So we decided to do everything we could to do something about that and try to defeat the self-fulfilling prophecy that we felt would be totally unfounded on the real supply of oil in the international market.

But the opposite occurred, as I mentioned, and it was no accident. It was the result of significant initial military successes and a great deal of planning and international cooperation before outbreak of hostilities.

I was in the Middle East last month and spoke frankly with both Saudi and U.A.E. leaders as well as to General Schwarzkopf. My purpose was twofold: First, to determine firsthand that, even in the event of hostilities, the oil fields were going to be able to continue to operate; and, second, to ensure that the Department of Energy had effective channels of communications with Saudi and U.S.

officials there. And we were successful on both counts.

Saudi and U.A.E. fields and facilities are well protected against military threat and will continue to produce, in my opinion. The Saudis have top-rate operating and security personnel in place. The multinational force is well positioned to help defend them, as has been evident by the recent downing of the Scud missiles as they approached Dhahran. And thorough precautions have been taken there against the threat of terrorism. We've seen no terrorist acts to date that would indicate a threat to those fields.

Here at home, we've also seen a real effort and commitment to the public good. The petroleum industry was responsive to the President's call for increased domestic oil production. It's up beyond prior plans by some 150,000 barrels a day and will be up another 150,000 barrels a day by the end of the year. And I think you're well aware of all of the various initiatives that we have worked with you on try to accomplish those objectives. And we have more work to do. It's under way, and I think we'll be successful.

We also appreciated the responsible way industry acted in the face of the quick run-up in crude prices after August 2nd. Your restraints in passing crude costs too

rapidly into the retail market showed special sensitivity to consumer interests, despite some of the media comments to the contrary. I've said that publicly. I believe it. I work with you, I talk to you, and I know your special sensitivities to the American public.

Consumers, too, have done their part. Consumption in the U.S. is down about 5 percent from the same period last year and worldwide down about 2.5 percent, while supplies are slightly above pre-invasion levels. In fact, we're worldwide about 195 million barrels above the four-year average. Still, to hedge against even the possibility of a supply shortage, the International Energy Agency acted last week at the outset of hostilities to make an additional two million barrels of oil a day available to the market. As part of this coordinated effort, the U.S. will draw more than 33 million barrels of oil from its Strategic Petroleum Reserves in the South, 1.1 million barrels a day over the 30-day period.

Now, some have raised a question as to whether or to what extent the sale should proceed as planned by the IEA nations, in view of results to date. These issues were raised after the first days' dramatic drop in oil prices which

defied predictions of pundits. Well, I do not believe that a couple of days of market activity should be the sole criteria for decision-making regarding the SPR draw-down. In fact, a steady hand on the tiller at this juncture in the campaign seems to me to be very prudent.

In fact, as a part of its plan, the IEA agreed to convene a governing board meeting within 10 days of activation of its plan. The IEA will hold this meeting on next Monday to assess the situation and decide on any modifications to the coordinated plan. John Easton, who is here with me this morning, our Assistant Secretary for International Energy, will attend as one of the two governors from this country.

The potential for a shortfall of oil, not the fact that the prices dropped, will determine the IEA response. I don't envision any change in course by IEA nations unless circumstances dramatically change, and in the right direction, over the next few days. We can talk about that, but if you think that scenario through, I think you'll agree with me that to turn off and on a spigot--which is not the way the SPR draw-down process works--could be the very worst thing to do depending on other events that might be coincident with any decision to turn off the SPR draw-down at this juncture.

Regarding current SPR draw²down plans, President Bush has directed the Secretary of Energy to waive provisions of the Jones Act so that tankers will be available to move SPR oil to refineries and ports all along our coast as needed, those that are deprived access to our sole pipeline. Both use of the reserve and the Jones Act waiver were recommendations in your short-term petroleum outlook report. And, of course, I stole that from you early, and I asked Lod to allow me to use some of its contents, recognizing that you still hadn't had final deliberations that you expect to have today. But they were important to me to know just what the industry felt about this package deal, particularly in the aftermath of the test draw last fall.

Now I'm asking you for another good deed. Help me get the right message out to the American people in the days to come. The world oil supplies are fully adequate today. World demand is dropping. Strategic reserves are moving into the market, and there still has been no significant damage to production capacity in the Persian Gulf. Of course the threat remains, but it seems to me to be well managed at this point, as we predicted.

This is a message we must repeat and repeat

because, as you know--and I know too well as well--~~the~~^{that} consumer confidence is vital. And while we don't have an oil supply problem now, irrational consumer behavior could create one.

For example, in 1990, motor gasoline in the U.S. was supplied at an average rate of 302 million gallons a day, and now we have roughly 185 million passenger vehicles and small trucks registered in the U.S., so that if every driver⁽ panicked and decided to top off by just two gallons on the same day, the demand would soar to 370 million gallons. And, of course, on that day there might be a shortage, but not a real market shortage, a behavior-induced shortage, however.

The same situation applies to the pricing of crude oil and products. If we witness trader panic in any given moment, particularly if we are faced with some unsubstantiated report--for example, about a rumored attack on or fire in a Saudi oil field--we could see a quick spike in prices. Not because of a real supply shortage but because of instant and rumor-inspired behavior.

We've known from the beginning that the key to building confidence and avoiding panic is credible information flow to all users, precise, real-time information that can

validate facts and quell rumor. This is why at the Department of Energy we've been working for many months to improve our ability to communicate with the Saudis and U.S. officials in the region and then to get accurate information out quickly to all 50 Governors, to Federal and State energy officials, and to the media, as well as the American people. We have installed state-of-the-art equipment put an effective network in place, and it was fully operative on the 15th of January.

DoE is now in a position to confirm information directly with officials on the scene and then get the correct information out quickly. We are manning an emergency operations center 24 hours a day. We have our own persons in Dhahran to monitor events in the most exposed Saudi oil fields. We have some of your retired colleagues in our offices helping us, those that have worked with Saudi Aramco and know the fields and know what is chaff and what is wheat in the reports as they come in to us. They have been a tremendous help to us in giving us advice in the absence of any ability to call up either temporary or NDER assistance from you.

We fax oil data daily to members of Congress, to every Governor in the nation, and to State energy officials

to help calm fears. All of this is designed to provide the nation's decision-makers and all our citizens with accurate, real-time information and to try to do everything we can to stop the rumors.

For example, one rumor said that Lloyds of London would no longer insure tankers in the gulf, a rumor we found to be completely untrue and one which we quickly debunked. As a matter of fact, this morning we had confirmation with notice to mariners going out in the region that everyone is now satisfied, that they understand the rationalization of some of the problems that they were facing out there, some of the rumors that had been even put out by some of our ^{own} people, and we find now that that has completely calmed down. And tankers are now moving, and we don't even have to use some of the shuttle services that are still available in the region to move from one port to another. So everything from Jubail south is wide open with minimum risk to shipping.

Another rumor stated that an Iraqi missile had taken out a Saudi refinery. This rumor, again, was untrue. Though the missile managed to hit a 260,000-gallon crude storage tank, it didn't damage a refinery, nor did it affect oil export flow. In fact, our daily reports, what we call

the Black Gold Message System, is giving us accurate data on refinery operations, oil flows, production--every single aspect of the Saudi Arabian oil field operation. And this gives us a very good feeling that when we're called by NYMEX or other interested parties, we can confirm factual data. And if the rumors are true, then we'll face up to it, and we'll be able to deal with that. We can manage so many of those situations with Strategic Petroleum Reserve assets, and that's what we're doing.

In the past week, a momentous week, we have seen impressive military actions by our troops, in concert with others in the multinational force. And we have also seen a high level of international coordination to maintain stability in the world oil market. Certainly this is my first venture into the interesting world of oil, and I can tell you that the cooperation internationally has been superb, and certainly with all of you. And we tend to come to you from time to time to even validate the ground truth that we think we have from other sources, because you have so many linkages into the Middle East and your experiences there are very important to us to keep us on the straight and narrow on these issues.

In addressing the nation last week, President Bush

said that "When we are successful--and we will be--we have a real chance at this new world order, an order in which a credible United Nations can use its peacekeeping role to fulfill the promise and vision by the U.N.'s founders."

So this is a time of challenge, but it's also a tremendous opportunity for us to find ways to realize the President's vision of a new world order for a new century, a world where the rule of law, not the law of the jungle, as the President has stated, governs the conduct of nations. And certainly I found in my trip to the Middle East a very sincere belief on the part of the responsible Arab leaders there that status quo ante was not good enough, and they all recognize that. So we have a tremendous opportunity here--and with restraint, incredible restraint shown by the Israelis here recently, that shows again that the coalition is hanging together, and hanging together very well. So we have new opportunities here which I think can be exciting for the long haul for all nations of the world.

So let me conclude by thanking the NPC once again for the fine work you've done and your unhesitating support during the past difficult months. Over the years, you have made many contributions to our nation's well-being, but I

think none more important than your fine response in the present crisis--the real reason why we need the National Petroleum Council.

I especially appreciate being able to call on you at short notice, as I've done here in the last few weeks, and know that I will receive your best efforts and judgment as exemplified in the two reports you're delivering today on energy emergency preparedness and short-term petroleum outlook. They have arrived at a very crucial time for our country and are very useful to me.

I also know that some of you have sons and daughters, relatives and friends, serving in our armed forces in the gulf, and you should be deeply proud of them. They're doing a superb job in supporting a cause that is just and right. And because of them, we will prevail and then commence this aggressive search for the hoped-for new world order of which the President speaks, one that's desperately needed in that difficult but vitally important region of the world on which so much of mankind relies.

So thank you for your work. God bless you in it, and God bless the United States of America. Thank you.

[Applause.]

CHAIRMAN COOK: Thank you, Mr. Secretary.

Secretary Watkins indicated he'd be happy to take some of your questions. Please identify yourself for the record when you ask your question.

MR. WOOD: Mr. Secretary, I'm Dalton Wood, an independent from Shreveport, Louisiana. As I gather, the reason for the selling of the oil from the Strategic Petroleum Reserves² was primarily because of media predictions of dire consequences in case war broke out. You state that you shouldn't turn this off and on, but we independents would be very gravely concerned if it appeared that we are trying to drive the oil down to some specified very low price which would be far lower than we could economically survive with. We sort of subscribe to the theory that if it is not broke, don't fix it, and we hope that you would take into consideration^{that} if the price starts falling, that we won't continue to drive that price down to the despair of all the independents who are trying to survive.

SECRETARY WATKINS: Well, let me clarify one point. In the first place, we did not initiate the SPR to drive prices down, nor did we do it because of the threats from the press. I was merely pointing out that all of the predictions

were in the wrong direction, and it gives you an idea of how the world works. And I have just merely pointed that out for other purposes.

We went into this with all IEA nations agreeing that there was the potential for significant oil disruption. Nobody knew how to read that crystal ball that clearly a week before hostilities commenced. So it was agreed to in the IEA that this met all the criteria of all the 21 participating nations and the other three nations that joined us from the European Community that this was the prudent thing to do. And it wasn't just because of the predictions of the press. It was because there could be a significant disruption of oil flow.

You all have looked at the charts of oil production and delivery to market and know that we were nominally a million barrels a day above the pre-August 2 levels. However, that was a bit fragile. We were pushing refineries and our operations to the limit in some areas, including in Saudi Arabia. So while we were working at a nominal rate that was equivalent to that prior to August 2, there's still some tightness in the system. And with all the other unknowns and the threats from Saddam Hussein, it seemed to me

to be very wise and all nations agreed that we should do this.

Now, does that mean it goes on forever? No, of course not. And if at this meeting a discussion is held on what might be the situation and outlook towards a second draw, I think today with the facts we have in hand and without any changes between now and the time the governors meet on Monday, in general, for the supply, then I do not see the governors coming out with a second draw. I don't see that that's necessary at all because we have now proven the ability of our forces, in combination with all the other multilateral forces in the region, to do the job.

We are not in the business of controlling the prices, and we have to walk on some eggshells on that. In this particular case, the prices came down. Nobody was predicting that the prices would come down. In fact, you all froze some things thinking they would go up, to try to show that you were good citizens. So I believe there was a general feeling that they would probably go the other direction, but that was not driving our actions.

We made it very clear in the IEA meeting, we made it very clear in all the interagency discussions that that's not our role. Obviously, if the world market is adequate and

being protected and there is no threat and we don't see any downstream threat, then clearly we're not going to be drawing the SPR down. However, once having made the decision of going out for bids in this country and trying to predict the unknowns in that region, where this dictator has now ignited Kuwaiti fields for some reason--nobody knows quite why. It doesn't seem to make any sense from either a military defensive point of view, and it certainly doesn't make the world happier, nor does it turn off the war. So what is he doing it for? Is there going to be nuclear winter with it? Absolutely not.

Some of the experts, so-called experts that are predicting these things, are playing right into his hands because these are the kinds of emotional responses which a person like Saddam Hussein has. It's absolutely preposterous to do what he's doing. He will have to pay for that eventually. The restoration of Kuwait is going to be his expense under the U.N. resolutions. Therefore, he's going to have to pay for it. So why do you shoot yourself in the foot? And why that would even affect prices on the market--we don't think it did yesterday. In fact, it went up to \$24.18 yesterday. It was far more technical trading issues up there at

this time of the month than it was any threat to those Kuwaiti fields.

So I believe we're doing the right thing in the IEA. I think that we'll have a good debate on Monday, and barring any major changes in the posture, I don't see any need to do other than keep a steady hand on the tiller and go ahead. We're not anxious in driving the price down to some preposterously low level suddenly by SPR action. That is not our role. We don't consider us to be intervenors in the market process. And we try to walk that line very, very carefully so that we're not even perceived as doing that kind of thing. Certainly that was not our intent on this draw.

an independent from Covington, Louisiana
MR. GRAHAM: Mr. Secretary, I am John Graham?

Would you comment on the status of the national energy policy, and are there any elements of it in which a consensus might be reached?

SECRETARY WATKINS: We have completed five Economic Policy Council meetings, two of which were with the President. All the issues have been put on the table, all options have been presented, pros and cons, and the final package is before the President.

When I was asked this question before, I say that,

one, as Secretary of Energy, in order to keep my job, ^{certainly} I am not going to beat on the President for timing on the energy strategy. He has enough on his plate right now and he does not need to have a lot of pressure on this.

Most of all the options have been in the public domain. We have had debates with you, we have had presentations with the governors' energy officers, we have had meetings with the "greens," with everybody on these various options. They are on the table. There are 25 bills on the Hill on energy. More than half of those are already on the table, more will be coming, and my feeling is that if we can find some time in here on the President's schedule in the near time frame, that we will be able to have this arrive on the Hill coincident with the budget. ^{But} I am not saying it is going to be at that time. That is my desire, but whether we can make it, with all of the other attention that the President has to devote to the current crisis, I am not sure yet.

^{But} I think we have got a good strategy, I think it is balanced, I think it has carried out all of the President's objectives. ^{It} has been a strategy in consensus building across the ^{Nation}, listening, and obviously we have some

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controversial issues, but they have been controversial in this country for years. This is nothing new.

We talk about alternative fuels, how far do we go in that. We are talking about removing some of the tax burdens on utilities that are pushing efficiency in conservation, where the IRS has made certain decisions. Those are all controversial, because any time you touch revenues, you touch some sensitive nerves, some of the economists.

So, we have gone through that final debate and we will see how it sifts out in the next week or so, and hopefully we can meet our objective of having it arrive with the budget, because obviously there are many items in our particular budget this year that are related to a close linkage to the national energy strategy, some of which we can predict very nicely, because we have a very, very large number of our options in consensus, and I do not think those are the questions, so those are clearly supported in our budget.

Others are not necessarily DOE budget-related issues, but they are very contentious issues, depending on which side of the coin you are interested in. So, we are watching those. I think we have got some very good meeting of

the minds on some of those issues, particularly regarding alternative fuels, so that we are not extreme, but, rather, right down the center, I think, of compromise in a conservative way that will satisfy the large majority, when it comes out.

CHAIRMAN COOK: We have got one back here.

MR. KENNEDY: Mr. Secretary, I am Art Kennedy, from Alaska. To follow up on that question, what is your prognosis on the ~~Anwar~~ ^{ANWR} debate that is coming up in Congress, and what is the administration's position on that?

SECRETARY WATKINS: Well, the President has said in the past, and I do not think it is a surprise to anyone, that he feels very strongly that the Arctic National Wildlife Refuge should be made available for the United States to take advantage of the over 3 billion barrels of reserves ^{that} we know to be there. It could be higher than that, as you know.

So, the leasing process on that, if it were started early, would be very helpful, not only for the additional oil supplies coming in at the turn of the century, but just as importantly, the revenues to support the other energy demands on the country at the time when we have significant budget deficits.

So, we think it is very important that the non-restricted OCS that ^{ANWR}~~Anwar~~, that the enhanced oil recovery initiatives that we have going with private industry and some more research in these areas are very vital, and they will be solid centerpieces, because one of the things we did learn in the energy strategy that, no matter how aggressive our renewables program is, how aggressive our efficiency and conservation, how strong we are in research and how successful we are there, that oil is right in the middle of the mainstream of our economic life, not only here, but around the world in most non-producing nations, in fact, almost all non-producing nations.

We have seen the lesser developed nations so far suffer severely from this, and we have agreements with these nations, bilateral and multilateral treaties, alliances of all kinds. We are partially responsible for them, and so, therefore, my feeling is that we have to play a major role in leading the way in the world on this balanced energy approach, and I don't see how we can do that and throw away the ^{ANWR}~~Anwar~~ Range, which we can manage in an environmentally sound way.

I think so much emotion has come out of the debates

on Exxon Valdez and its linkage to offshore oil, which is it not, and its linkage to ^{ANWR}~~Anwar~~, which it is not. All of those things have been very confused in the past, and I believe that if he has done anything, Saddam Hussein has given us some catalyst to get our act together in these areas in a balanced fashion and sift wheat from chaff out, and stop going after isolated pieces of the problem and pull it all together in a package that has the demonstrated linkages that are clearly there between economics, science and technology, environment and energy needs for the Nation, and keep this Nation on a real growth path.

So, all of these things have to be taken into consideration and are in the national energy strategy, and I would have to say that if I thought there was one element that was critical for the Nation, it was the opening of the ^{ANWR}~~Anwar~~ Range, in a very small area. We have been up there, we have seen it, we know what can be done environmentally to protect it, and we are not going to do egregious damage to the environment, and certainly not to wildlife up in that region. We know how to do that, you know how to do it, and we will do it well.

~~MR.~~ Sara Hansard : If you send the energy plan

to Congress, along with the budget, would you be giving a report at that time, or would you be doing a long report in April?

SECRETARY WATKINS: We have to submit, by law, the national energy plan, as it is called in the law, by the 1st of April. That is a requirement on us. We had hoped to beat that, because we are one-year late, and we asked the Congress to please put off the 1990 version, since we were working hard at a new plan that was much more comprehensive and integrated, and they agreed to that, but we only have until 1 April, so certainly that is what I consider to be the deadline for the final and full report.

As it has taken some time, because of events, to clear the decks here before going to press, it may well be that we do not have the final bound neat version by the Government Printing Office at the time the budget goes up, but hopefully we will have the decisions that are necessary to be made by the President, so that we can go to the Hill with basically, you might say, a very strong Executive summary, which would place all of our initiatives within the umbrella strategy that we are proposing.

So, that is kind of the way I see it coming out,

but we are getting very close to the point where we cannot publish in neat form the final long version, with all of the various appendices and all of the documentation from the hearings. We have over 22,000, I think, pages of testimony, we have 2,000 documents, some of which have been submitted by the NPC and NPC members and other groups, related to oil and gas, for example. All of those have to be documented and available, because, as you can imagine, there are going to be special interest groups who will want to attack it from their own vantage points, and we hope to be able to show that we have the analytic stuff underneath this that nobody else has ever had.

It is a very powerful analysis, in my opinion. It is the very best of the modeling, some of which you have helped provide, and we think it is a very supportable document, and also will knock down extremists who come in and want to, from their hip pocket, come up with some new ideas about how we are going to force the american people to change their lifestyle and that sort of thing.

I do not see that happening, and I think we can begin to manage the national energy program a lot better, because of the analytic work that has gone on intensively

over the last 7 months to really bring the Council of Economic Advisors, the Office of Management and Budget, the Secretary of the Treasury's Office, our office and others into harmony about the cost analysis that has gone on on all of these various options. We have that. It has never been available before in this kind of integrated way.

MR. MILLER: Mr. Secretary, John Miller, from Miller Energy, in Michigan. I want to commend you for the comments which you ~~are making~~ this morning on ^{ANWR} Anwar and the last comment you ~~had~~ ^{are making} also about the need for getting on with the program and having the technological background and the ability to do it.

I guess my concern is, for 18 years, roughly now, we have been contesting in this arena and really haven't achieved a great deal, and I am wondering if you would comment on how you perceive the selling of this proposition to be accomplished. I have noticed you doing some TV advertising on energy conservation and things of that nature, and it doesn't appear that the Congress is going to lead in this, at least they haven't opted to do it for some time, so ^{we go about, how do you go about, how do} how do we accomplish getting the groundswell movement of the general public ^{hopefully} to instigate the formation of these policies?

SECRETARY WATKINS: Well, one of the wise things that was done was the President asked us to build this as a consensus document, to the extent possible, in the Nation, and this led us to move around the Nation and hold hearings basically in every region of the country, including our non-contiguous states in the Pacific and in Alaska, and we have done that religiously.

As a consequence, almost everything we have done is in the public domain. We did put out an interim report, which was merely a compendium of public comment, containing what I would call omni-directional thinking--nuclear is bad, nuclear is good, gas is good, gas is bad, oil is good, oil is bad, we love electricity, but we hate oil, gas and nuclear.

This kind of thing was all in the interim report, but it was a good document, in the sense that it demonstrated the complexity of the issues, when you try to interrelate economics and science along with environment and energy issues. From that, then, we began to wean off from 600 options that were given to us, over 600 options to about 60. We could bring together, we could jell these things in a new way and package them up in such a way as they began to make sense, and then we had to separate even wheat from chaff in

that process during the analysis phase, and that has all been done.

So, I think having been open about that in this process, we have some chance of having some national support. Now, the bills that are going to come out of the Hill, while many of those 25 that I mentioned are focused in specific areas, primarily of constituent interests, there are some that are going to come out of like the Senate Energy Committee. Bennett Johnston, Malcolm Wallop and others on that Committee are going to have their own energy bill, and that is going to be comprehensive and it is going to be integrated and will be along the lines, probably, very much into our concept at this point that ~~is before~~ the White House.

So, I think you ^{are going to} ~~can see~~ a major move this year in the Congress to find answers to an integrated energy strategy, and there are going to be some efforts to hold it together and not allow it to fly apart, not unlike that process we followed in clean air. I don't like to link it with that, because it is totally different, although it is related. That clean air is a key module in the national energy strategy. We have taken clean air and put it in as the 1990 base line. You have to do that, because that is the

law. ^{So} you put it in there and ^{if} it is downstream. ^{if} there are some adjustments to that, then that will be reflected in the second edition, the third edition, the fourth edition which will come out ^{biannually} ~~biennially~~.

So, I think that we have got a chance, and if there were ever a chance to be successful, isn't it now, with the events ^{that} we have in the Middle East? So, we have to take advantage of this opportunity ^{to} ~~and~~ try to get this thing on track and have all of these interlocking laws that affect us, and certainly those that tie us up in regulatory bodies ~~are~~ eliminated, so we can minimize the damage we have done to ourselves in diversifying our energy supplies.

So, I think there is a good chance, and we are going to need your help, as this thing comes out, to try to find mechanisms out there to sell it. Obviously, we have to work on it on the Hill. There are going to be some adjustments, probably, that ~~are~~ ^{are} always ~~going to~~ ^{going to} have to be made ~~and~~ ⁱⁿ compromise, but hopefully we will have a solid enough analytic underpinning, as I mentioned earlier, to permit for the first time a cohesive plan to come out, with a variety of pieces of legislation, regulatory reform, encouragement of states to come along and to eliminate some of their regulatory

barriers, certainly in the area of access to gas pipelines.

We have seen 38 backed-up pipeline issues sitting over in FERC. We have talked to Martin Allday about it. We are going after a lot of those things--hydro reform, so that we can stop having this 5-year-plus relicensing on existing dams with existing turbines. Why do that? Why not pick up the existing 20,000 megawatts we can get by not affecting the fish and the ecology and that sort of thing? We know how to do it. ~~Now,~~ let's get on with it. We can't do it today, because no investor wants to have that kind of money tied up for that length of time before they can get into rate base.

So, that is the kind of thing that is inside the strategy, and all of that is a consensus. There isn't anybody that is fighting us on the issue of regulatory form from either side of the aisle on Capitol Hill, either. So, you are going to see a big ~~move~~ ^{movement} this year and we have got to hang together on making sure that this stays as an integral package, because the relationships between the various elements of it are too close and too inter-tied to allow it to be fragmented again, which has given us the situation we have in the ~~Nation~~ ^{Nation} now, and we don't want to return to that fractionated policy.

CHAIRMAN COOK: One more question.

MR. Radzewicz : Actually, the nuts and bolts of drilling wildcat wells we all know is a tax incentive. Now, I have a plan which I call the U.S. energy security tax credit plan, which for every dollar we would get as tax credit ~~taxpayers~~ for total government return tax-wise would be about \$3, and that would immediately start several thousand wells to be drilled in this country, because, really, the independents have a time raising money for drilling wells, and I would like you to comment on that ~~it~~, sir.

CHAIRMAN WATKINS: Well, as you know, in the budget reconciliation bill, there were a number of measures in there to try to place more incentives into ~~and to~~ enhance oil recovery in a direction that is along the lines that you mention.

How much can come out of the energy strategy, I don't know. We obviously have a significant enhanced research package going in, in collaboration with the private sector, with a lot of burden sharing and so forth on applied technologies.

We do have some changes to the law, as a result ~~as a result of~~ the reconciliation bill. There is going to be continuing debate on Capitol Hill on some kind of an oil

import fee. Whether that is successful or not, I don't know, but I know already on the Hill there is a great deal of talk about that, isn't ^{this} the time, if it is up above \$21, to have a floor and that sort of thing.

So, all of that will be in debate, and I think that there is no option left that can't pick up on your theme, but I think it is going to have to be placed in balance with everything else that is up there on the Hill, and that is why I say it is good to present the options, and if they are not accepted perhaps in the first package, maybe as the debate goes on on the Hill, there are going to be tradeoffs and other approaches taken, because some of these things have interlocking ramifications and outcomes connected with them.

Clearly, there have been recommendations coming into the White House on variable oil import fees for some time. It has been going on ever since we started the energy strategy development, primarily coming in from the producing states and their governors. So, we are very well aware of all of these things. We are very well aware of the independent problem vis-a-vis others, particularly when we get into things like ^{Iroquois} ~~airport~~ pipeline, we get into even the ~~SPRO~~ SPR drawdown and access and what it really means to independents.

So, we recognize that, particularly if we didn't have Jones Act waiver.

So, we are trying to do these things in as balanced a way as we can, but we can't solve all the problems in one sector, because we find that we are running head-long into some severe opposition from others, so we have tried to balance it off as best we can across the board. But I can assure you that there is great sensitivity by the President and certainly to me and to Henson Moore on the issue of the independents. We are worried about it and are watching it very carefully and we will do everything we can always to make sure that we aren't imposing unnecessarily on them, as we make our decision. It is always in the forefront of our thinking, and I can guarantee you that it is in the President's.

CHAIRMAN COOK: Thank you, Mr. Secretary. We appreciate your comments and your being here with us, and we congratulate you on the job you are doing, especially in these difficult times. We want to express our appreciation also to you and your staff for the close cooperation we have had in working the various issues that you have asked us to do. Again, our thanks for being here, and let's give the

Secretary another round of applause.

[Applause.]

Over the last 6 months, the Council has been actively working on ^{the} a request that the Secretary has asked for. At our last meeting, he requested studies on natural gas and petroleum refining. In July, the NPC Agenda Committee met and approved these requests. In November, they met again and approved the request for the Council's assessment of the factors affecting the short-term petroleum supply-demand outlook.

As provided in ^{the} NPC Articles of Organization, and recognizing the urgency and importance of these requests, I established NPC Committees on Natural Gas and Refining. We will hear reports from the ^{the} Chairmen of those committees later in our agenda.

I referred the Secretary's request on the short-term outlook to the NPC Committee on Emergency Preparedness, which was working on an earlier request on ways and means to provide industry expertise during an emergency. The ^{the} committee has prepared proposed responses to those requests for the Council's consideration. These two draft reports were sent to the Council membership earlier this month, and copies are

in front of you at your places.

Bob McClements is Chairman of the Emergency Preparedness Committee. I would now like to call on him to present the first of the committee's reports. Bob?

MR. McCLEMENTS: Thank you very much, Lod.

I personally would like to express my pleasure to be here this morning to present for your approval our committee's report on providing industry assistance to our government during emergencies.

As our committee was being formed last spring, our world was much different than it is today. There had been extensive unpredictable changes in Eastern Europe. The Berlin Wall had come down, the cold war was ending, it appeared that prospects for world peace were never greater, that the struggle for power in the world would be based primarily on economic successes, rather than military ones.

In fact, concern was expressed at the start of our study that our ability to get people excited and energized over preparing for emergencies, in the light of the prevailing optimism that was all around us about peace.

In the committee's progress report to the NPC membership in June of 1990, we reported the feeling that,

although there were reasons for optimism about peace, the world still had to be concerned over instability and armed conflicts, particularly in the volatile Middle East.

When I go back and look at those comments, I noted that we pointed out that Iraq's aggressive tendencies were there, and, of course, did that ever prove to be true.

Well, what initially seemed to be somewhat an academic exercise in preparing for emergencies became quite meaningful on August 2nd, as our views of the probability of war and likelihood of oil supply disruptions changed dramatically.

Against the backdrop of the recent Iraqi crisis and a response to Secretary Watkins' request, we have developed recommendations which we believe provide mechanisms for improving the ability of the oil industry and our government to deal with emergencies.

[Slide.]

This slide shows the broad membership of our committee, representing various sizes and types of companies, as well as differing geographic regions. We were honored to have John Easton, DOE's Assistant Secretary for International Affairs and Energy Emergencies. John is here in the front

row. ^{And} Also, Linda Stuntz--Linda was sitting there one minute ago. Again, Linda, ^{is} the Deputy Under Secretary for Policy, Planning and Analysis, as our government co chairs.

We established a subcommittee, also with a broad membership, to study the issues and develop a draft report for the committee's review.

[Slide.]

This slide shows the members ~~membership~~ of our subcommittee. I would like to personally thank them for their dedication and enthusiasm throughout the study.

I would also like to thank the DOE and NPC staffs for their support. I would like to recognize several members who led sub ^{groups}, focusing on specific areas under Jim Nolan's overall direction.

Wellman ~~Roman~~ Branstrom ^{of} ~~for~~ Unocal, who focused on the national defense executive reserve; Steve Goldman ^{of} Exxon, who focused on legal issues; and Jim McNamara ^{of} Texaco, who focused on the overall philosophy and on what we call Levels I and II.

As Lod noted, each member of the Council was sent a copy of our draft report. I would like now to present an overview of the report, covering the principal recommendations

and some important issues raised, and then I would be happy to address any questions you might have.

We can summarize Secretary Watkins' request⁵ by focusing on these two questions: By what mechanisms can industry provide assistance to the Department of Energy during petroleum supply emergencies? And how should a petroleum national defense executive reserve, an NDER, be organized and staffed?

I would like to review the three mechanisms we recommend, describe the NDER program, and review the key legal issues that affect industry's ability to provide assistance.

The first level involves individual company contacts, individuals designated by their companies to serve as the primary interface with DOE to address supply problems, such as a pending of existing shortages and price spikes. These contacts should be the primary interface in all types of supply disruptions, particularly for regional smaller disruptions.

Discussions with DOE would focus on the severity of the problem for the individual company and what corrective action the company might take, as well as the company's view

of the overall problem. Individual company contacts partially exist today, but the list of contacts is incomplete and in some cases outdated.

Our second level of response is an executive advisory group. This is a small ad hoc group selected by the Secretary of Energy to meet with him to provide their individual assessments of the emergency situation during large supply concerns. The composition of the group would be determined by the nature of the emergency and the type of issues the Secretary wishes to address.

For instance, if the worldwide oil supply/demand balance was a key issue, the group composition would favor international versus domestic or regional oil companies. The group would address the severity of the emergency, the pros and cons of various actions DOE might take, such as the draw-down of the Strategic Petroleum Reserve, and the other facts around the situation.

There are important legal issues with the anti-trust laws and the Federal Advisory Committee Act which need to be addressed in the operation of the Executive Advisory Group. I will discuss those in just a minute.

The final level of industry response is a National

Defense Executive Reserve, the NDER, whose mission is to assist DOE to meet critical civilian and military needs for oil. NDER reservists would be activated to full-time government service only for extreme national emergencies. Reservists would obtain security clearance and training to allow them to function quickly in a real emergency.

The Secretary specifically asked the Council to identify a staffing mechanism that would be supported by our companies. Therefore, as I stated last June, we should be fully aware of the commitment implicit in our adoption of this report.

Reservists would be selected by DOE from nominations of individuals by their companies and by individual volunteers most likely retirees. The organization structure recommended in our report includes approximately 45 positions. Not all of these positions would ^{necessarily} be activated in a real emergency. The exact needs would depend critically on the nature of the emergency. The typical time commitment for a reservist ^{is} expected to be two-to-five days per year when not activated. The NDER program, we recommend, it is not new. Similar reserve groups already exist within the DOE for coal, electricity, and natural gas.

We have attempted to limit the size of the reserve. We assume that market forces will be allowed to work to the fullest extent possible rather than full government controls. We also expect that the NDER would be activated in stages rather than all at once. We believe the size and nature of the emergency organization needs to be flexible and to evolve through training of the reserve where functions of individual reservists can be more accurately described.

Following the selection of reservists we recommend a joint effort to enhance existing training and to allow testing and modification of the proposed organization structure.

Two significant legal areas are a concern: Conflict of interest and anti-trust. Again, I will describe that in a minute.

The NDER would be activated only under extreme conditions. We have recommended five criteria which all must be met before activation. These are: war or similar hostilities have broken out or appear likely; there is a real or impending significant shortage of oil; the government is significantly intervening in the market place; legislative relief from significant legal constraints has been granted,

such as the conflict of interest; presidential approval of the need to activate the reserve.

Well, as you can appreciate, these are all very restrictive. The reserve would be activated only for the most severe national emergencies.

Why so restrictive? We believe market forces should be relied on as much as possible even in an emergency to reduce shortages. There is a belief in keeping the experts with their companies where they are key to making the supply system work. We anticipate that many reservists will come from key positions in their companies where their loss would reduce the company's effectiveness in dealing with the emergency.

Legal concerns need to be remedied to allow reservists to function without undue constraints or hardship. Since many of these criteria are subjective, for instance, is there impending war; is there an oil shortage? Rather than trying to define each criteria precisely, we have provided for the President to make the judgment on the need for activation.

And finally, we felt that NDER program would receive more industry support if activation only would occur

in severe situations. I mentioned legal issues are very important in establishing how industry can provide support for government during emergencies.

I would like to mention briefly several key legal issues that impact level II and level III responses. First, the Executive Advisory Group. Anti-trust laws prohibit certain actions by competitors that might adversely affect competition. Care must be taken to avoid prohibitive behavior at any Executive Advisory Group Meeting, particularly discussions related to price, future actions companies might take, and competitive information.

To limit the risk of these anti-trust problems, we recommended an advanced review be made of topics to be discussed and suggest that Government anti-trust counsel be present to provide guidance on areas of discussion that are to be avoided.

Another legal concern with the Executive Advisory Group involves the Federal Advisory Committee Act. This Act is designed to protect public interest by regulating the activities of advisory groups. The National Petroleum Council, for example, falls under this Act, which requires public meetings, advance notice of meetings, and broad

participation of interested parties in the formation of consensus advice.

Depending on the nature of meetings and composition of the Executive Advisory Group, it may not fall under the Federal Advisory Committee Act, particularly if its function is to provide individual advice, not consensus. It deals with facts and information and is non-recurrent, ad-hoc and not a standing advisory group. If consensus advice is desired it may be more appropriate for the Secretary to request action by the NPC.

The largest legal area of concern with the NDER is the conflict of interest laws which require financial disclosure, divestiture of energy, oil financial holdings, and limited activities, both during Federal service and after.

These laws could place undue hardship on reservists who may be activated for what could be a relatively short period of time. Our report describes these concerns in detail. Legislative relief from these constraints is needed before activation ^{for} of the NDER is to function effectively.

There are also some anti-trust concerns for the NDER during training activities and after activation that must also be addressed for the NDER program to be successful.

For instance, during training, a group of reservists from competing companies may make a joint recommendation on how certain problems could be jointly resolved. There may be exposure to claims of illegal joint action.

In recommending the establishment of an NDER program, the NPC has assumed that legal issues would be resolved before activation based on Secretary Watkins' guidance in his request for the NPC study. In 1990, the Administration recommended changes for the Defense Production Act to remedy many of these concerns. However, they were not enacted since Congress allowed this Act to expire. We would hope that in a serious crisis that appropriate remedies would be properly enacted.

In summary, recent events have reinforced the need for industry assistance to Government during energy emergencies. The recommendations in this report should help us be prepared. The Iraqi crisis and the change that is has caused in the world and in the oil business have illustrated the need to be prepared.

Mr. Chairman, this completes my presentation. And I move that the National Petroleum Council adopt subject to some final editing this report on providing industry

assistance to the Government during emergencies and its complete response to the Secretary of Energy's request.

CHAIRMAN COOK: Thank you, Bob, and for the excellent job that your Committee has done on this report. We have a motion to adopt the Committee's Report, entitled, Industry Assistance to Government: Methods for Providing Petroleum Industry Expertise During Emergencies.

Do I have a second?

MR. : Second.

CHAIRMAN COOK: Is there any discussion?

[No response.]

CHAIRMAN COOK: If there is no discussion, we will vote on the motion.

All of those in favor say, aye.

[A chorus of aye.]

CHAIRMAN COOK: Opposed, nay.

The report is adopted subject to the final editing that Bob mentioned.

Bob will now present his Committee's second proposed final draft report. Bob?

MR. MCCLEMENTS: Well, thank you, again, Lod.

Our second report is titled, The Short term

Petroleum Outlook: An Examination of Projections and Issues.

this report was prepared in response to Admiral Watkins' request of October 19, 1990. The Secretary sought the Council's advice in four main areas as shown on this next slide. First, the Secretary wanted an assessment of the issues shaping the short-term petroleum supply/demand outlook. We were then asked to provide quarterly estimates of U.S. petroleum supply and demand for the first half of 1990 and an analysis of the factors that can affect these estimates.

In his request, the Secretary recognized the potential for competence and legal consensus and offered the EIA short-term energy otlook assumptions and results for the Council's use. As I will discuss later, we decided to review and validate the EIA forecasting process and models in lieu of preparing a new supply and demand forecast. Given the nature and urgency of the Secretary's request, it was referred to the Committee on Emergency Preparedness. The Committee agreed to the unusual step of essentially re-activating the coordinating subcommittee that worked on the 1989 NPC study, Petroleum Storage and Transportation.

As you will recall that study presented an excellent

analysis of the petroleum supply and distribution system and examined the system's response to several hypothetical stress situations. This slide shows the members of the subcommittee and gives me the opportunity to thank them once again for the tremendous amount of work that they put into this project.

Their commitment is all the more significant when you realize that most of them have senior line responsibilities for supply and distribution in their companies. I would particularly like to say a word of appreciation not only to the whole team but for the very strong leadership that Riad Yammim ~~Ria Demersen~~ of Marathon provided to this subcommittee.

As the bottom part of the slide shows, two groups of special assistants were formed; the first to look at specific issues which affected the short-term outlook; and to the second, to review the EIA's short-term energy outlook models.

As an introduction to our findings and conclusions I know everyone, everyone in this room, is certainly aware of how complex the world petroleum supply and distribution system is. I think it is important to refresh our memory, every once in a while. We, in the United States, are a

relatively small part of a large world market for crude oil and refined products. As you see, the bulk of the world trade originates in the Middle East and fans out all over the world. It should not escape anyone in this country--and I do have certain people in mind--that the U.S. cannot insulate itself from this world market place.

That, in fact, is our first conclusion and it is the fundamental underlying principle that runs throughout the whole report. We then concluded that if there is a disruption of world oil flows, prices will increase and short-term product shortages may develop. The Committee cautions, however, that government actions to artificially lower these price increases can intensify short-term disruptions and potentially reduce the longer term effectiveness of the supply system. Price drives the system.

One of the specific areas the Secretary was concerned about was refining capacity for this winter's heating season and into the 1991 driving season. Based on our analysis and judgment we have concluded that barring a significant further crude oil disruption, worldwide and domestic refining and logistical capabilities are adequate to respond to a wide-range of normal contingencies without

government intervention. The types of contingencies we considered normal include unusually severe weather, unscheduled refinery shutdowns, and pipeline outages.

The key is to allow product imports and exports to flow freely in response to market conditions. It is important to note, however, that in spite of the overall adequacy of refining capacity, the loss of several major sophisticated refineries or a sharp increase in apparent demand due to hoarding could cause regional problems.

Next, we looked at issues surrounding a large additional reduction in worldwide availability of crude oil. Here, we concluded, that at the outbreak of hostilities in the Middle East and an immediate announcement of the release of U.S. and other ^{IEA}~~I.E.~~ Strategic Petroleum Reserves, should be made.

President Bush took this action on January 16. We also recommended that the Jones Act waivers be granted in conjunction with SPR release to allow timely transportation of SPR oil. This, too, was done by our President on January 16. We do not yet know if the war or other events will cause a further crude oil disruption. Right now, the likelihood appears low and I think we have seen that reflected

in world oil prices. The study also addressed disruptions which might be significantly larger than the SPR could satisfy.

Our conclusion is that in such a case, government actions may be required to reduce petroleum demand. We strongly believe, however, that any such action should be taken to the extent possible within the framework of market prices and unrestrained product movements both import and export.

Our final primary conclusion is that a uniform, statutory and regulatory environment rather than a patchwork of ~~state~~ regulations and controls is needed to maintain the flexibility of the petroleum supply system to respond in emergencies.

I would like to quickly note four additional conclusions from the analysis of a further disruption during the first half of this year. First, temporary relaxation of certain product specifications could increase refinery yields of heating and transportation fuels. The effects of such actions would be relatively minor and should be considered only in the most severe emergencies.

Secondly, we recognize that the price increase that

would accompany a disruption could cause severe hardships to some elements of our society. Government action should be directed toward alleviating these hardships.

The report also addressed government actions which could potentially exacerbate supply problems. One, of course, is jaw-boning. Another is closing the futures market.

I would like now to describe the projections portion of our study. As I mentioned at the outset, we decided that revising the models and process used by EIA to create the short-term energy outlook would be preferable to developing new supply/demand projections. The EIA's energy study, energy supply/demand projections are among the most complete and generally accepted ones that are publicly available.

Dr. Kent and his staff were very cooperative and open to our review. An NPC team spent a number of days at EIA studying their process. In addition, the group asked EIA to test this process by varying price and economic activity assumptions. The conclusion is that given any reasonable set of bases, ^{the} ~~that~~ EIA method of producing a short-term outlook yields appropriate and reasonable results. Several minor areas for improvement were identified but they do not alter

our basic conclusion.

In closing, I would like to highlight two final conclusions from our study. The first is that EIA's report, Petroleum Prices and Profits in the 90 Days Following The Invasion of Kuwait provided an excellent retrospective commentary on that difficult period.

Finally, the System Dynamic's Volume of the NPC 1989 Petroleum Storage and Transportation Report has been validated on two occasions by actual stress situations. We believe it would well serve anyone, attempting to understand petroleum supply and logistics to be familiar with that report.

Mr. Chairman, that concludes my presentation of the draft report as it was approved by the Committee on January 9th. I would like to add that the events of the past week should not be taken to change the basic findings and conclusions of this report.

On the table this morning is a draft of the transmittal letter which on behalf of the Committee I propose to be bound into both reports to the Secretary; this report and the one you just approved on Industry Assistance to Government.

This letter states that the Council's support for the President's action and suggests that we remain vigilant to the potential of unexpected extreme results of conflict in the Middle East. One extreme is the oil supply disruption scenario I have discussed today. I think it is the Council's responsibility to point out to the Secretary that the other extreme could result in an oil price collapse like we saw in 1986, and the resulting increase in import dependence.

Mr. Chairman, I move the adoption of the short-term outlook report with the transmittal letter included as a part of both reports from the Committee.

CHAIRMAN COOK: Thank you, Bob.

Your Committee has done an outstanding job and I would like to also add my appreciation to ^{Riad}~~Riyadh~~ and ^{to}~~the~~ members of the Committee for the fine work that they did. I know the enormous amount of time that ^{they}~~the~~ spent on this and it is certainly appreciated by all of us and by the Secretary and his staff.

These reports are very timely as you can see and the Secretary indicated this morning that because of the close interrelationships and the development of the proposals, his Department has already used some of the concepts and ideas

that are presented in the two reports.

I have a motion to adopt the second report of the Committee on Emergency Preparedness entitled, Short-term Petroleum Outlook: An Examination of Issues and Projections and the transmittal letter. The motion is also to include the letter to transmit the previous report on providing industry assistance to the Government. Do I have a second?

MR. : Second.

CHAIRMAN COOK: Any discussion?

Yes?

MR. ANGELO: Mr. Chairman, Ernest Angelo from Midland, Texas. I am a little bothered by the blanket endorsement of the futures trading and I wonder if I am the only one in this organization that has a concern regarding the tremendous degree of speculative trading that goes on and also the high probability of insider trading particularly on the part of OPEC members. Those two items, in my mind at least, admittedly from a ^{probably} high degree of ignorance on the process that we are creating a ^{very} ~~rather~~ false pricing mechanism rather than a good one. Is anyone else concerned about that?

MR. : Yes, sir.

CHAIRMAN COOK: I do believe that NYMEX has put

some rules in terms of the volatility aspects of the futures market. Bob, you want to comment further on what the Committee thought about that?

MR. MCCLEMENTS: Yes, of course, that was a subject that received a great deal of review and discussion. But again, I would comment, first of all, that the NYMEX is not a market, unto itself. Any restraints, restrictions there and the traders ^{that have moved} ~~then~~ immediately moved to other markets around the world. We would agree that there are, in some cases, a need for perhaps further oversight in the behavior in the Merc. But as Lod just mentioned, in recent days the Merc did put in extensive controls. They did put in the concept of maximum movement in a single day without a break--I am sorry, maximum movement before a break and then maximum movement within a total day. That just limits both ^{what} ~~for~~ crude and ^{product} ~~processed~~.

But when you go on through that and think about it and talk to many people, the conclusion comes through clearly that without the Merc, perhaps the price ^{flight} might have been indeed higher than what it was, when it started.

CHAIRMAN COOK: I think there are some who feel that without the Merc you would have a hoarding phenomenon that would tend to do the kind of thing that you are talking

about, as opposed to being able to look out and see what the market is, how it is behaving vis-a-vis the events at hand and that tends to perhaps work in the interests of smoothing the market.

Yes, Dalton?

MR. Woods : Mr. Chairman, I am a bit confused. I noticed that you specifically stated that we do not favor any governmental action to drive the price of oil, to effect the price of oil. But at the same time, I noticed that we are endorsing the immediate sale of crude oil. I ^{would like} want to know what our objectives are if there ^{is} was no actual shortage? Are we actually endorsing the sale of ^{SPR} this oil even though the price may be driven below \$20 a barrel?

CHAIRMAN COOK: Bob?

MR. MCCLEMENTS: The fundamental basis behind the recommendation that the SPR be used was to calm the markets. The perception that we had when the Iraqis first moved into Kuwait, we saw the tremendous run up in the price of crude, was the concern about short-term supply. And every user of petroleum products, whether it is the individual consumer and his natural reflex to go out and fill his automobile tank or our commercial customers and their natural desire to go out

and protect their inventory, their belief that what they pay for oil today will be cheaper than what it will be tomorrow, ~~that~~ had the potential for significant disruptions in the distribution of petroleum products. And the suggestion of the use of the SPR when it is appropriate, will indeed, provide a calming effect to those turbulent market ^{places} ~~effects~~ and avoid panic in the structure. ^{That is the argument that the report,} ~~not dramatic responses.~~

CHAIRMAN COOK: I think your question to the Secretary was a good one and I think the way that he answered it should indicate that that is the concept here is to avoid panic and to not create an unnecessary disruption.

Anybody else?

Yes?

MS. ^{Rylander} ~~REILLY~~: Mr. Chairman, I am Carolyn ^{Rylander} ~~Reilly~~ from Austin, Texas. And I a former mayor of that city and I say that only to explain that former mayors have suicidal tendencies and mine haven't quite subsided and that is the only reason that the new kid on the block can stand up and ask a question.

But I am the new kid on the block with the Petroleum Council and my concern is under the protective summary on page five, the last finding and conclusion which states, ^a a

uniform statutory, regulatory environment rather than a patchwork of State regulations and controls, etc., etc., is needed to respond to emergencies."

My initial reaction is that I would rather ~~see~~ ^{or substitute} something to the effect of Mr. McClements reference several times this morning too, something to the effect of a sound-market based system for the production and distribution of petroleum is the best means of protection in the event of national emergency. But reading further into there, I certainly understand and appreciate and I just don't have the background not having been here sooner, perhaps the argument relates to such things as is referenced on page 11 with oil spill liability. I can certainly understand needing uniformity for such things as oil spill liability in coastal waterways.

My question is, should that particular one be targeted more or should we define more what emergencies or extreme emergencies or --I just don't have the background for it.

CHAIRMAN COOK: Bob?

MR. MCCLEMENTS: Well, let me address the general tenor of your comments before the final question. After the

August second invasion, there was within a very short period of time legislation of some variety to manage allocation or distribution or price of petroleum products was initiated in some 23 States on very short order. Many States, although not all States, have also a State set-aside which is allocating some portion of the petroleum products ~~that is~~ sold in that State.

And We are very concerned that if individual States were to go ahead and enact price control, profit control measures, allocation measures on a State basis, it would be a significant disruption to the neighboring States and as it would be to our nation. We feel that anything that if we ever get to that stage and we hope that we don't that it would be done on a national basis as opposed to a State-by-State basis.

CHAIRMAN COOK: I think there was also concern from our experiences in the '70's where we saw some of this happen and create artificial disruptions. And that bothered us. I would like to point out that seniority on the Council is not required to ask questions so that we are happy to have your questions.

Anybody else?

[No response.]

CHAIRMAN COOK: If there is no further discussion then, we will vote on the motion. All of those in favor say, aye?

[A chorus of aye.]

CHAIRMAN COOK: Opposed, no?

[No response.]

CHAIRMAN COOK: The report is adopted, subject to final editing.

We can, again, I think--^{the is that} in fact, I think we just ought to give a round of applause to the people^{who have been} working on a very tight schedule^{to prepare this}.

[Applause.]

CHAIRMAN COOK: As I mentioned earlier, the Council has begun the study on natural gas. Frank Richardson, the Chairman of the Committee will now report on their plans.

Frank?

MR. RICHARDSON: Thank you, Lod. I would like to give you a very quick update on where we think we are headed with on the NPC Natural Gas Study. We had our first committee meeting just yesterday afternoon so that obviously I don't have any study findings but I would like to very, very briefly touch on two things; the Secretary's request, and our

organization to meet this request hopefully in our current very short snapshot of the focus and scope of the study.

Very simply, there are a lot of bullets up on the request, but very simply, the Secretary asked us to assess the potential for natural gas making a larger contribution to our national energy supply. ^{And} He also said, in doing this, to delineate the technical and the economic and the regulatory constraints, which stand in the way of potentially increasing our production and our distribution and our use.

Looking at the organization next the NPC committee that has volunteered for this particular study is very large. It is 42 members. As you can see, the makeup is very broad which is very desirable because obviously there are many constituencies in this complex issue. So we have the eight integrated oil companies there, you see the 11 independents, the 11 distribution, the transmission companies and seven in the other categories ⁴ which include consultants and various other people who have or organizations that have expertise.

In the organization, obviously as Lod said, I have been asked to be the industry chair. I am very, very pleased to serve with the Government co-chair, Mr. Bob Gentile who is at the head table, Assistant Secretary of the Department of

Energy, and also to serve with the industry vice chairman, Ken Lay of Enron, Vice Chair for transmission, and Mr. Gene Tracy from People's Energy who has particularly responsibility oversight on the distribution.

What you don't see up here on this NPC Committee on Natural Gas is the outfit that is probably the most important and certainly the one that is going to do the bulk of the work and that is the coordinating subcommittee. To describe for you, just very quickly in a few seconds, we have broken the work of the task effort up into four groups. ^A~~They~~ ~~include a~~ task group on supply that is headed up by Walt Piontek of Mobile; a task group on transportation and storage which is headed up by Bill Smith of Southern Natural; a task group on demand and distribution which is headed up by Mike Morris of Consumer's Power; and a regulatory task group which is headed up by Rich Richard of Northern Natural.

So we have supply, transportation and storage, demand and distribution and regulatory--four task groups that are about to kick off and go to work. I would say that very importantly the task groups also reflect excellent geographic distribution, obviously excellent functional distribution and also will be manned by people with various views and various

constituencies.

We think that on average, about 15-to-20 people will eventually be named on the task groups. Most of them are named now and we are adding some more to make sure that we do have the right distribution. ^{As to} ~~And~~ their next meeting^s they intend to meet about monthly.

So regarding the scope of this study, just a couple of bullets. We are obviously going to make a comprehensive analysis in the four areas. We are going to delineate restraints in each of the four areas. We are going to--the thought now was ^{to} develop one or more scenarios--^{for} ~~four~~ increase gas use in which the four study groups or the restraints, constraints in the four study group^s areas are consistent in every one of the four scenarios or options. That is going to be a very large task. Then, of course, at the end, we intend to develop recommendations regarding alternatives or trade-offs which appear to be useful and make sense in expanding natural gas use.

So that's kind of an overview, obviously. As I said, we are just in the final stages of the organization. It is going to be a rather long study. It is a complex study. There are a lot of points of view we have to take in

regard and there is a lot of work in making sure that the options or the scenarios are consistent. We think that obviously we are going to be ^bback with you giving status reports. We are going to be meeting with the committee, the large committee for overview and we think it will take probably at least 18 months to finish the report.

So, Mr. Chairman, that is all I have at this time in the way of a progress report.

CHAIRMAN COOK: Thank you, Frank.

Know note As Frank indicated this is a progress report, but I note that he would welcome any comments that you may have at this time about the study.

I think all of us will agree that it is a very important review of a very important segment of the industry especially in view of the fact of the potential for natural gas to play a much larger role in the country's energy future.

Our final study committee report is from the NPC Committee on Refining. Ken Derr, Chairman of the committee will now review the status of the work and the schedule for its completion.

Ken?

MR. DERR: Thank you, Lod, and good morning. I

apologize for my voice. I hope I make it through. We've got a little germ warfare going on in northern California, unfortunately, and I don't think anybody can talk for the last two weeks.

Last year, Admiral Watkins requested the NPC to undertake a comprehensive study updating the Council's petroleum refining capacity studies of 1980 and 1986. The Secretary asked that the new study focus on the impact of environmental regulation of refineries and petroleum products. Specifically, the Secretary's letter of request states, and I quote, "I request that the NPC assess the effects of these changing conditions on the U.S. refining industry, the ability of that industry to respond to these changes in a timely manner, regulatory and other factors that impede the construction of new capacity, and the potential economic impacts of this response on American consumers."

The Secretary's complete request letter is appended to the study paper in your packets that you have in front of you.

To respond to the Secretary's request, the NPC established the Committee on Refining. I am honored to have Linda Stuntz, DOE's Deputy Under Secretary for Policy,

Planning and Analysis, as my Government cochairman. A Coordinating Subcommittee and four task groups will assist in conducting this study. Rosters of the comittee and the subcommittee are also attached to the papers in front of you.

We held our first meeting on November 12th and, as one of its first acts, decided on a two-phase approach to the study. The comittee felt that in view of legislative and regulatory activities a six-month study product was needed in addition to a final report. Accordingly, the first phase will focus on the immediate impact of ~~on~~ the Clean Air Act. The second phase will be a broader and more detailed examination of the capabilities of the entire refining industry and the potential impact of the full range of environmental issues facing refiners.

Phase I of the study will describe the impact of Title II of the 1990 Clean Air Act on the production and supply of motor gasoline and diesel fuel in the United States. Specifically, it is to describe how reformulated and conventional gasoline, as well as two ~~to~~ sulfur levels of No. 2 oil might be produced and supplied in the 1992-1996 time frame. The study will discuss and highlight changes from the present system, both facilities and methods of operation.

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How industry and government might get from the present system to the future system will be evaluated. The study will also comment on regulations and interpretations that would facilitate the supply of gasoline and No. 2 oil while complying with the intent of the Clean Air Act. In addition, it will comment on the expected timing for the facilities expected to be required.

A subgroup of the Coordinating Subcommittee was formed in November of last year to expedite progress on this Phase I study. The approach being used is to have a contractor interview each company represented on the NPC Committee ^{on}~~of~~ Refining. Five interviews have actually been completed to date.

A retrospective, or what some people call a "Rip ^{Van}~~Van~~ Winkle" approach, is being used in which interviewees are asked to accept that they are now in 1996 and find the industry in compliance with the EPA regulations without market disruptions. Questions are designed to bring out interviewees' views of what had to happen in order to make that possible. We believe that this approach will result in a more positive report.

A contractor, McKenzie and Company, will aggregate

responses to maintain confidentiality of company input. They will present only aggregations of views to the subgroup where a report will be prepared by early April. A report should be into the final review process of the committee by May 1 and to the full Council by late May.

I should point out that this Phase I will not be a detailed, quantitative review, but it was the feeling both of the committee members and also the Secretary that he needed and we needed some initial indications of potential problems in the refining industry in this country resulting from the Clean Air Act so that this could be utilized as input in the Secretary's deliberations over the next 12 or more months as the regulatory process proceeds.

Phase II of the study will determine the physical changes that have actually occurred in the petroleum refining industry since the 1986 report. The main focus will be on evaluation of the capability of the industry, both physically and economically, to produce the quantity and quality of refined products required in the 1990s. The investment requirements and other costs associated with meeting the new environmental legislation and regulations on both refinery products and the refineries themselves will be considered.

As a follow-on to the Phase I work, quantitative evaluations of the requirements and impacts of the 1990 Clean Air Act and other environmental initiatives will be made in detail.

Supply and distribution logistics and product differentiation will also be reviewed. Finally, the study will analyze the capability of the U.S. engineering and construction industry to provide the processing and other facilities that will be required by the refining industry.

In the material before you this morning is a more detailed description of the committee's progress and plans. As I've mentioned, the Coordinating ^{Sub} Committee is up and running, and parallel with the Phase I effort, four task groups are being formed: Product Quality, Refinery Facilities; Supply, Demand, and Logistics; and Survey. The chairmen of these task groups are all in place. The members are being identified, and initial meetings are scheduled over the next six weeks.

In closing, I would like to stress the importance of your help on this project. Your prompt response to the surveys and requests for participants as we staff up the task groups will be crucial to the success and the timing of the study. The U.S. refining industry faces numerous legislative

and regulatory challenges, and we hope this study can be very useful to the Secretary in helping shape administration policy.

Based on the complexity of the issues to be considered and the level of detail needed to support the analysis, the final report is expected to be completed in late 1992.

Mr. Chairman, that completes our progress report, and I look forward to presenting a report of Phase I of our work to you in June. If there are any questions, I'd be happy to take them.

CHAIRMAN COOK: Thank you very much, Ken. We do look forward to that first phase of the report at our next meeting, which will deal primarily, as we understand it, with the implications of the Clean Air Act on the industry.

We are very fortunate to have Ken and Frank to lead these two study efforts and the people who have already signed on. As Ken indicated, we hope that you will continue to be as cooperative as you have been in the past in supplying people for the various assignments on these committees, as well as to deal with the questionnaires and the interviews that will be conducted by the outside consultant, McKenzie.

It is very gratifying to see the support through^{out} the NPC membership for the kind of work that we have been asked to do by the Secretary.

We have one other administrative report today, and that's from the Finance Committee. As is obvious to you, we have a great deal of work that's under way based on these requests from the Secretary. Support of these studies will cause us to not only have additional people from the various members in the Council, but also will require increased funding. And for the happy task to tell us about that, I'll call on John Hall, who is the Chairman of the NPC Finance Committee to present his committee's report. John?

MR. HALL: Thank you, Lod.

The Finance Committee met this morning to review the financial position of the Council. We reviewed the actual receipts and expenditures for the calendar year 1990, and we are happy to report that the financial position of the Council is strong and that 1990 will end with a small operating surplus.

The committee is especially gratified by the response of you Council members to Lod Cook's request for financial contributions. To date, the contributions received

are over 96 percent of the total amount requested.

The committee next ^{discussed} ~~discussing~~ funding requirements for calendar year 1991. The committee recommends ^{that} the Council approve a budget in the amount of \$3,220,000. This budget includes funds to finalize in print the emergency preparedness reports that we approve ^{here} this morning, and funds to complete Phase I of the refining study and make significant progress on Phase II. The 1991 budget also includes initial funds for the natural gas study.

This budget is a substantial increase over our 1990 budget which was approximately \$1.8 million. But it does reflect the activity necessary to properly respond to the important request of the Secretary. A substantial part of the Council's cost of these studies is for consulting and accounting firms to properly protect the sensitivity of each individual company's data.

We then discussed member contributions for the period July 1, 1991, to June 30, 1992. We believe that we will need to increase member contributions for the first time in several years. In fact, the total amount requested from the members has been about the same for the past 10 years. It is the Finance Committee's view at this time that the

additional moneys we need for 1991 should be taken partly from the Council's contingency fund, but in combination with a 15-percent increase in the amounts we ask you for in the 1991-1992 member contributions.

Thank you, Mr. Chairman. This completes my report, and I would like to make a motion that the Council adopt the report of the Finance Committee.

CHAIRMAN COOK: Thank you, John.

As John indicated, we have a 96 percent response this year thus far on contributions, and we know that ~~for~~ the remaining 4 percent the check is in the mail.

I have a motion to adopt the report of the Finance Committee. Do I have a second?

VOICE: Second.

CHAIRMAN COOK: Any questions or discussion?

[No response.]

CHAIRMAN COOK: All those in favor, say aye?

[A chorus of ayes.]

CHAIRMAN COOK: Opposed, nay?

[No response.]

CHAIRMAN COOK: The report is adopted.

The next agenda item marks the passing of two

distinguished Americans who were industry leaders and Council members. Fred Hartley, the former chairman and chief executive officer of Unocal Corporation, served as a member of the Council from 1965 to 1989. Dr. Armand Hammer, chairman of the board and chief executive officer of Occidental Petroleum, served on the Council from 1968 to 1990.

Ladies and gentlemen, I would ask that you ^{would} rise for a moment of silent reflection and prayer in tribute to these two very fine gentlemen and good friends of all of us.

[Pause.]

CHAIRMAN COOK: Thank you.

Many members have commented that it would be helpful for us to pick Council meeting dates as far in advance as possible. I would like to suggest that our next meeting be held on June 4th. In the early spring, we will check with Ken Derr on the progress of the first phase of his Committee's work and confirm that date with you at that time.

Ladies and gentlemen, this brings us to the end of our formal agenda for this morning. Do any of the Council members have any other matter to report on at this time?

[No response.]

CHAIRMAN COOK: Are there any non-Council members

who would like to raise a question at this time?

[No response.]

CHAIRMAN COOK: There being no further business,
I'd like to adjourn the meeting. Do I have a motion?

VOICE: So moved.

CHAIRMAN COOK: Second?

VOICE: Second.

CHAIRMAN COOK: All those in favor, say aye?

[A chorus of ayes.]

CHAIRMAN COOK: Opposed?

[No response.]

CHAIRMAN COOK: The 97th meeting of the NPC is
hereby adjourned. Thank you very much.

[Whereupon, at 10:57 a.m., the meeting was concluded.]